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BUSINESS

China's ZTE to Pay \$1 Billion Fine in Settlement With U.S.

Under deal, U.S. enforcement officers will be placed in the telecom company to monitor its actions



ZTE has been effectively closed for business since a mid-April Commerce Department order restricting its trade with the U.S. PHOTO: GILLES SABRIE/BLOOMBERG NEWS

By Bob Davis, Dan Strumpf and Lingling Wei

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WASHINGTON—The U.S. and China reached a deal that will allow ZTE Corp. to get back to business, ending a nearly two-month shutdown of the Chinese telecommunication giant's operations despite a backlash in Washington.

The agreement requires ZTE to pay a \$1 billion fine and allow U.S. enforcement officers inside the Chinese company to monitor its actions, Commerce Secretary Wilbur Ross said Thursday. In return, ZTE can resume buying components from U.S. suppliers that it needs to make smartphones and build telecoms networks.

Speaking on CNBC, Mr. Ross said ZTE must change its management and its board, and put \$400 million in escrow, which it will forfeit if it violates the agreement. In mid-April, the U.S. banned exports to ZTE as punishment for the Chinese company breaking the terms of a settlement to resolve its sanctions-busting sales to North Korea and Iran. "We still retain the power to shut them down again," Mr. Ross said.

A ZTE spokeswoman didn't respond to a request for comment.

Although Mr. Ross said that the ZTE deal was simply an enforcement action, it has a broader impact. The company's fate has become wrapped up in negotiations over trade differences between the world's two largest economies. It is far from clear that the agreement will forestall the U.S. from implementing tariffs on \$50 billion of Chinese goods after June 15, as threatened.

As ZTE's fate hung in the balance, Chinese regulators had until recently held off approving the proposed acquisition by U.S. chip maker Qualcomm Inc. of Dutch company NXP Semiconductors. China will sign off on the deal soon, a person with knowledge of the situation said. In the past few days, Chinese regulators have been working with Qualcomm's legal team on the "technical details" required for the approval, the person said.

The ZTE deal is likely to inflame tensions in Congress, where a bipartisan group of lawmakers has strongly opposed any deal, with some questioning why the Trump administration is throwing a lifeline to a Chinese firm that violated U.S. sanctions. Others have criticized the administration for effectively turning ZTE into a bargaining chip in broader U.S.-China trade negotiations.

“The Trump administration is giving ZTE and China the green light to spy on Americans and sell our technology to North Korea and Iran, as long as it pays a fine that amounts to a tiny fraction of its revenue,” Mr. Wyden said.

Despite the backlash, President Donald Trump intervened personally to save the Chinese firm, saying in a surprise tweet nearly four weeks ago that ZTE should stay in business. Later, Mr. Trump laid out in more precise terms what he expected in a deal, including a hefty fine and leadership changes.

One surprise in the long-mooted deal is the requirement that a U.S. compliance team be embedded in ZTE. Mr. Ross said it would be staffed by Chinese-speaking U.S. agents and report to ZTE’s new management as well as the Commerce Department. The compliance team will stay with ZTE for 10 years. An outside compliance team is already in place at ZTE under the terms of its settlement last year.

The deal revealed by Mr. Ross calls for a clean sweep of ZTE’s board of directors and senior leadership. While it is not clear how many executives ZTE will have to replace, the deal implies an ouster of ZTE’s chairman, Yin Yimin, who took on the role last year, as well as the rest of the company’s 14-member board.

Thursday’s deal effectively brings ZTE back from the dead. The Chinese company has been closed for business since the Commerce Department order restricting its trade with the U.S.

ZTE relies on an array of critical American components to build its smartphones and cellular equipment, including chips from Qualcomm and optical components from smaller firms such as Maynard, Mass.-based Acacia Communications Inc.

The paralysis of ZTE’s operations has left customers around the world, including telecom operators in Europe, without access to network construction maintenance, and left smartphone customers without access to key services.

Even with the sales ban lifted, ZTE is unlikely to go back to business-as-usual quickly. In recent weeks, the company has been facing a wave of demands for compensation from telecommunications customers around the world due to unfinished work. A number of operators have stopped carrying ZTE phones.

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In addition, many smartphone customers of ZTE have been without access to key software updates and other services in the time that ZTE has been closed, and it faces a challenge in winning back their confidence. ZTE is the fourth-largest vendor of smartphones

in the U.S.

ZTE has been moving quickly to pave the way for a deal that would reverse its ban on buying American products. In recent months, the company has clawed back bonuses and issued letters of reprimand to 35 of the employees that it originally promised the U.S. it would discipline, according to a person familiar with the matter. It has also stripped responsibilities and job titles from a handful of senior employees at its Shenzhen headquarters, this person said.

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